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BEFORE THE

DEPARTMENT OF TRANSPORTATION

WASHINGTON, D. C.

DEPT. OF TRANSPORTATION
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Joint Application of

UNITED AIR LINES, INC.
and
DEUTSCHE LUFTHANSA, A.G.
(LUFTHANSA GERMAN AIRLINES)

for approval of and antitrust immunity for an expanded alliance agreement under 49 USC 41308 and 41309

OST-96-1116" /6

MOTION FOR LEAVE TO FILE AND RESPONSE OF
AMERICAN AIRLINES, INC. TO APPLICANTS' JOINT REPLY

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April 23, 1996

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WASHINGTON, D. C.

Joint Application of UNITED AIR LINES, INC. and DEUTSCHE LUFTHANSA, A.G. (LUFTHANSA GERMAN AIRLINES) for approval of and antitrust immunity for an expanded alliance agreement under 49 USC 41308 and 41309	OST-96-1116

MOTION FOR LEAVE TO FILE AND RESPONSE OF
AMERICAN AIRLINES, INC. TO APPLICANTS' JOINT REPLY

American Airlines, Inc. hereby moves for leave to file the following response to the joint reply submitted on April 12, 1996 by United Air Lines, Inc. and Lufthansa German Airlines. American's response should be accepted in the interest of a complete and accurate record for the Department's consideration.

I. THE DEPARTMENT SHOULD NOT PROCESS THE UNITED/ LUFTHANSA REQUEST AHEAD OF OTHER IMMUNITY APPLICATIONS THAT WERE FILED MONTHS EARLIER.

The United/Lufthansa application was filed less than two months ago, on February 29, 1996. The Delta/Sabena/ Swissair/Austrian immunity application was filed on September 8, 1995 (OST-95-618), and the American/Canadian immunity application was filed on November 3, 1995 (OST-95-792). Yet United and Lufthansa contend that there is no reason not to process their request first.

The Department should not permit United and Lufthansa to jump the queue. Orderly administrative procedures, and basic principles of fairness, require that applications seeking similar authority should be considered in the order they are received. Delta's request has been pending for nearly eight months, and American's for nearly six months. There are no compelling distinguishing factors to justify consideration of United's application out of turn.'

Indeed, there are strong reasons why the United/ Lufthansa combination should require far more detailed and time-consuming scrutiny than either of the other two long-pending applications for immunity. The U.S.-Germany market is the second largest in Europe, after the United Kingdom, and the

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'United and Lufthansa cite the phase-in provisions of the U.S.-Canada agreement as "material factual differences" with what they characterize as the "Open Skies agreement concluded between the United States and Germany" (p. 4 n. 3). United and Lufthansa neglect to mention that the U.S.-Germany agreement itself fails to meet an "objective" definition of open skies, as ground-handling services in Germany remain restricted. Moreover, any contention that the U.S.-Canada agreement does not permit unlimited Fifth Freedom services is belied by the fact that, as a matter of geography, Fifth Freedom services beyond Canada are not remotely comparable in importance to such services beyond Germany, and for that reason (as provided in the Framework Agreement) the U.S. did not even seek such rights in negotiations with Canada.

arrangement proposed in this docket involves two of the largest carriers in the world. In these circumstances, the public interest would not be served by out-of-turn action on the United/Lufthansa immunity application. The Department should process the long-pending Delta and American requests first in the interest of orderly procedures and basic fairness.

II. ANTITRUST IMMUNITY SHOULD BE WITHHELD FROM UNITED/ LUFTHANSA UNTIL LUFTHANSA'S ANTICOMPETITIVE CRS BEHAVIOR IN GERMANY HAS CEASED.

As explained in our answer, SABRE has encountered a succession of barriers in its effort to participate in the CRS market in Germany. Because of these impediments, SABRE has attained a market share of only five percent after nearly 10 years of effort, despite the fact that SABRE has consistently been voted the world's best CRS by travel agents. This minuscule share of the German market stands in stark contrast to the relative success SABRE has enjoyed in less closed markets, such as the United Kingdom and Italy, where SABRE's market share is 15 percent. See SH&E Study on CRS Charging Principles for the European Commission, August 1995, p. 15 (Attachment 1).

In Germany, Lufthansa's system, Amadeus, has been able to maintain an overwhelming market share of 82 percent. It has succeeded in locking out CRS competitors because (1) a number of German travel suppliers, including German Rail and TUI, have refused to participate at any level in any CRS except

Amadeus, and (2) Lufthansa, far and away the dominant air carrier in Germany, has withheld from other systems functionality comparable to what it offers in Amadeus.

In an attempt to minimize the importance of these undeniable facts, Lufthansa and United first claim that having fair access to the German CRS market is not related to the ability of American and TWA to compete as airlines with Lufthansa and United (joint reply, p. 15). That position ignores the Department's long-established precedents. For example, in finding that British Airways, by obstructing the distribution of SABRE in the United Kingdom, had violated American's right to compete fairly in the U.S.-U.K. market, the Department said:

> "The opportunity guaranteed by the [U.S.-U.K. Air Services Agreement] is the ability to market the airline services authorized by the bilateral on terms comparable to those available to British Airways, the owner of the only CRS significantly used now by U.K. travel agents. The ability of U.S. carriers to have a meaningful opportunity to establish CRSs in the United Kingdom is critical to the exercise of their bilateral right to a fair and equal opportunity to compete. Even a CRS completely devoid of anticompetitive or discriminatory elements provides a competitive benefit to the host carrier, much in the same way that ownership of any facility needed for the marketing and operation of airline services, such as airport gates, enhances a carrier's market presence. Computer reservations systems, moreover, are now the primary tool for notifying travelers of each airline's services. <u>Thus, we conclude that the 'fair and equal opportunity' clause in the U.S.-U.K.Air Services Agreement applies to the ability</u>

> <u>of the carriers to have the opportunity to market their services throush their computer reservations systems"</u> (Order 88-7-11, July 8, 1988, pp. 12-13, emphasis added).

United itself urged the Department to apply this same fundamental principle in a proceeding involving impediments to United's efforts to market Apollo in Japan. In that case, the Department expressly relied on its decision regarding British Airways, and concluded that:

> "United has shown that its ability to market its airline services in Japan is substantially hampered by the impediments placed in the way of its marketing of APOLLO.... The ability of APOLLO to compete equally with JALCOM would enable Untied to compete on an equal footing with JAL in marketing its services through Japanese travel agents" (Order 88-9-33, September 28, 1988, pp. 8-9).

The Department determined many years ago that the right of U.S. carriers to fairly and equally compete with a dominant foreign carrier subsumes the right to market its CRS overseas, even if the foreign carrier's system is "devoid of anticompetitive or discriminatory elements." Thus, the Lufthansa/United argument -- that neither American nor TWA "suggest that their own U.S. -Germany air travel services are not adequately and fairly distributed through the various CRS systems available in Europe, including Amadeus" -- is completely irrelevant.

Further, an analysis of CRS booking data for the German market demonstrates that Lufthansa, for whatever reason, receives an enormously disproportionate share of bookings through Amadeus in Germany as compared to the share it receives from any other system in that country. The table below summarizes the respective booking shares for the period January-September 1995 of British Airways, Lufthansa, and American in all four systems doing business in Germany:

Carrier	Amadeus	Galileo	SABRE	Worldsnan
BA	4.71%	9.10%	12.54%	4.19%
LH	52.28	16.44	10.14	9.53
AA	1.43	2.38	3.50	6.43

This data shows that Lufthansa receives a share of bookings through Amadeus in Germany that is three to four times greater than what it receives from any other system. On the other hand, American does far worse in Amadeus than in any other CRS there. Accordingly, the Department's conclusion in prior proceedings that fair competition included a U.S. airline's ability to market its own CRS in foreign markets is fully borne out in the German market. This data also shows that, despite Lufthansa's allegations to the contrary, the functional differences that Lufthansa has created for selling its services through Amadeus and SABRE have had their intended effect -- relegating SABRE and Worldspan principally to the small sector of the agency market whose business is not so heavily dependent on Lufthansa.

Lufthansa next tries to avoid responsibility for the barriers in the German CRS market by arguing that it "has no control" over the German tour companies and charter carriers which refuse to deal with competing CRSs (joint reply, p. 17). That argument is contradicted by the German trade press article attached to American's answer. The article strongly suggests that TUI's boycott of SABRE was a _quid pro quo_ for Amadeus to offer lower fees to TUI.

As to the argument that TUI and Lufthansa are not acting in concert, the Department should consider the complex web of cross-ownership that permeates much of the German travel industry. The intimate and extensive links among Lufthansa, TUI, and other German travel suppliers has been corroborated by a special report on the European tour operator industry prepared by the London-based Economist Intelligent Unit in October 1992. See Attachment 2. Because the findings of that report are directly pertinent to Lufthansa's protest that it has not been acting in concert with TUI and others, we have quoted as length below some of the most relevant passages:

> "TUI's links to airlines are only indirect through the companies with which it has connections either because they are a shareholder in one of its shareholders or through its own cross-ownership with the Hapag Lloyd group.
>
> "Ownership: A Model of Complexity
>
> "Weaving through the mass of cross-shareholdings in the German travel industry to reach the core

of control over TUI is a complex task -- as it is with other major players in the German tour operating business. What emerges, however, is a marked upstream presence of the rest of the the travel industry, in particular travel agencies, as well as links to other major retailers/mail order groups, Germany banks, and indirectly with airlines.

* * *

"Three leading German travel agencies also have crucial stakes in TUI. These are Amtliches Bayrisches Reiseburo GmbH (ABR), Deutsches Reiseburo GmbH (which is linked through minority cross-shareholdings) and Hapag Lloyd Reiseburo GmbH (which is also a shareholder in DER and ABR).

* * *

"Through these three travel agencies, TUI has connections which stretch into most of German banking, travel, and government. The German government is ultimately a stakeholder in ABR via the German railways and in DER via the railways and Lufthansa. Deutsche Bank comes back into the picture through a minority stake in Hapag Lloyd AG, the parent of Hapag Lloyd Reiseburo GmbH. TUI itself is also a significant minority shareholders -- 10 percent -- in Hapag Lloyd AG. Deutsche Bank is also a major force in the supervisory board of Lufthansa, where it sits, among others, alongside a representative of the state of Bavaria, the main shareholder in ABR, and of the Dresdner Bank.

* * *

"TUI does not own an airline, but it is tied through cross-shareholdings to Hapag Lloyd and to Lufthansa (and therefore to Condor) through the airline's stakes in Hapag Lloyd and DER. Touropa Austria is a joint venture with Austrian Airlines" (pp. 76-77).

We do not purport to have completely untangled the web of cross-ownership that may exist between Lufthansa, TUI, and other German travel providers. However, based on the above report and on other data American has been able to uncover, it can be said that:

- TUI owns 33.3% of START
- Lufthansa owners 33.3% of START
- Lufthansa owns 10% of Hapag Lloyd
- Hapag-Lloyd owns 30% of TUI
- TUI owns 10% of Hapag Lloyd
- German Rail owns 35% of Hapag Lloyd
- German Rail owns 33.3% of START
- German Rail owns 50% of TUI
- Lufthansa, TUI, and German Rail have a number of common shareholders and common board members

Lufthansa's influence through this web of share interests was explicitly recognized by German Rail in a June 1994 letter in which it explained why, after years of negotiations, it would not participate in SABRE. German Rail candidly confessed that it was unwilling to participate in SABRE because that would create a conflict with its START co-owners, Lufthansa and TUI. The letter further noted that Lufthansa was "not interested" in making additional features available through SABRE, and that Lufthansa, as a marketer for Amadeus, was in direct competition with SABRE. See Attachment 3.

In our answer of April 3, 1996, we noted that SABRE had filed a complaint with the German Cartel Office against German Rail, alleging that German Rail's refusal to participate in SABRE was an abuse of its dominant position. We further noted that in January 1996, following an investigation by the Cartel Office, German Rail provided a commitment of undertakings to participate in SABRE. While the parties have made progress on technical issues, the latest round of commercial discussions between SABRE and German Rail, scheduled for last week, were unilaterally canceled by German Rail. Lack of progress on commercial matters raises questions about German Rail's interest in reaching a final agreement to participate in SABRE. Any delay by German Rail in becoming a SABRE participant furthers Lufthansa's interest in preventing SABRE from offering a competitive CRS in Germany.

It defies common sense to believe that Lufthansa's same underlying interests and influence are not at work in the decision by TUI (and by other Germany tour companies) to forego distribution in SABRE. TUI's decision not only protects the market position of START/Amadeus but, as shown above, also enhances Lufthansa's revenue through the disproportionate percentage of bookings that Lufthansa receives from START/ Amadeus subscribers.

In summary, Lufthansa is so tightly bound to TUI and other German travel providers through cross-ownership, interlocking board relationships, and common upstream owners that its protest that it has not been closely collaborating with TUI, and with the other German travel providers which have refused to deal with U.S. CRSs, lacks any credibility. Significantly, Neckermann, a tour provider second only to TUI but without links to Lufthansa, distributes its products through SABRE in Germany.

Finally, Lufthansa tries to dismiss out of hand American's and TWA's complaints that Lufthansa has withheld from SABRE and Worldspan vital functionality which it has provided to Amadeus in Germany. Although it has a high level of connectivity with SABRE, Lufthansa in fact makes some important subscriber functionality available only through Amadeus.

- Lufthansa's most valued frequent flyers participate in the HON program, which gives passengers access to desirable seats blocked for HON members, wait list priority, and other special privileges. Amadeus can automatically and interactively process a HON card number. That functionality is not made available through any other CRS.

- Amadeus can issue tickets on departure (TODs), a tremendously popular facility in Germany that is commonly used by business travelers). For years, Lufthansa has made this functionality available in Germany only through Amadeus. Tellingly, in the United Kingdom -- where Amadeus does not enjoy a near monopoly position -- Lufthansa has made TODs available to SABRE. Lufthansa recently indicated that it is willing to test a new SABRE TOD function in the U.K., and that it may make this functionality available to SABRE's German subscribers. Only time will tell, however, if SABRE will finally get this important functionality in Germany after years of unequal treatment.

Given Lufthansa's dominance in the German air transport market, we are at a loss to understand how Lufthansa and United can seriously argue that reduced functionality has had no impact on SABRE's marketability in Germany (joint reply, p. 18). Their argument is belied by the overwhelmingly dominant position of Amadeus in Germany, the small number of Lufthansa bookings made on any competing CRSs (and not just SABRE), and the fact that the only two U.S.-controlled CRSs competing in Germany have both complained that Lufthansa has withheld important functionality from them.

We also note that Lufthansa's statement that it has encountered "overcharging by SABRE" (joint reply, p. 19) strains credulity. Of all the world's CRSs, it is Amadeus, the system of Lufthansa, which is by far the most expensive. As confirmation of the wide gap in pricing between Amadeus and SABRE, Attachment 4 is a letter distributed by Galileo showing CRS prices effective April 1, 1996. The Department will note that, as attested to by Galileo, Amadeus's booking fees in Europe are 5.5 percent higher than SABRE's, even without taking into account the fees of .62 ECU per ticket (about $.80), and .12 ECU per credit card authorization (about $.15), assessed by Amadeus.

Lufthansa is engaging in a number of discriminatory and anticompetitive practices with respect to SABRE in Germany. It would be contrary to the public interest for the Department to approve the United/Lufthansa application for antitrust immunity until these practices have ceased, and SABRE is finally allowed to compete effectively in the German market.

Respectfully submitted,

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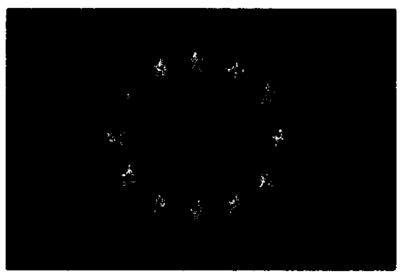
April 23, 1996

ATTACHMENT 1

Study on CRS Charging Principles

For

European Commission



Final Report

SH&E
August 1995

Exhibit 2.4

European CRS Market 1995

CRS Shares (%) of Bookings

MARKET	Amadeus	Galileo	Sabre	WorldSpan	European Share'
UK	7	73	15	5	16.7
Germany	82	10	5	3	15.5
France	80	7	8	5	14.4
Scandinavia	75	15	10		12.4
Italy	15	65	15	5	9.6
Spain	82	10	3	5	9.5
Switzerland	10	80	5	5	3.8
Netherlands	10	55	5	30	3.6
Greece	30	60	10		2.5
Turkey	20	40		40	2.5
Portugal	3	90		7	1.5
Ireland	10	82		8	1.5
Belgium	22	37	17	24	1.6
Other [2]					4.9
Total	49	36	9	6	100

Source: SH&E

[1] Share of W European Sched Air Departures (May 1995)
[2] Finland, Austria, Iceland, Luxembourg, Gibraltar, Monaco

Travel Aaencv Community

As Exhibit 2.5 indicates, travel agencies represent a significant and growing industry within the EU. There were over 34,000 outlets in 1993, employing over 205,000 people. Despite the stagnation in the travel industry during this period, agency outlets increased by 9.4%. The combined turnover is estimated currently at over 60B ECU.

Exhibit 2.5

Travel Agents in the EU, 1990-1993

	1990	1991	1992	1993
No. of Travel Agency outlets	3 1,250	33,500	33,500	34,175
Employment in travel agencies (000)	187.50	195.00	201.00	205.10
Turnover (ECU bn)	56.96	58.18	60.60	60.60

Source: EIU 1994

The subscriber market for CRS automation is focused on the "full-service" IATA agencies. As Exhibit 2.6 indicates, these IATA agents account for about ½ of all EC travel agency

1. TUI — Germany

TUI (Touristik Union International) is the clear leader in the European tour operating business. At Ecu2.6 bn, it had a 1991/92 turnover one and a half times that of its nearest rival as an all-round package travel company, Thomson of the UK There are few destinations or clients for whom TUI does not have a product, but sun-and-sand packages still form the backbone of its business, with Spain accounting for 38 per cent of all those booking holidays with TUI, Germany, in 1990/91. TUI has a complex ownership structure, and is controlled by leading German travel a -

Most of TUI's expansion in recent years has been through investments in tour operating companies outside Germany and through downstream integration. Almost 30 per cent of turnover now comes from outside Germany.

The opening up of eastern Germany has expanded the potential Of the domestic market. TUI also has room lo consolidate its position further in southern Germany where it has historically been less strong, but has been making up ground in recent years as well as building up its long haul business.

After a major change of marketing direction in 1989/90 following some sluggish performances, TUI appears successfully to have managed the switch from multi-brand segmentation to destination marketing under a single logo across all catalogues (22 in summer 1992) and — though profitability is low — nothing appears to threaten its dominance.

A 64 per cent increase In its capital in 1991 gave TUI additional financial backing for further expansion.

Group history, structure and strategy

TUI is one of the oldest tour operators in the modern industry. Although the TUI Group as such was not set up till 1968, its roots can be traced to the formation of Touropa in 1948 by four travel agencies — Amtliches Bayrisches Reisebüro (ABR), Deutsches Reisebüro (DER), Hapag Lloyd and Dr Degener. The first three remain as minority shareholders (with 11.59 per cent each) and have a major say in the affairs of the company; TUI and DER share a pension fund. (See also the section on DER.) The Degener name survives among the TUI subsidiaries. TUI itself was set up in 1968 from a merger of Touropa with Scharnow, Hummel and Dr Tigges. The consolidation -process continued with the absorption of Transeuropa, Airtours and Seetours International.

By the mid-1970s TUI was reaching the limits that the German anti-trust authorities could be expected to sanction. Since then TUI's major acquisitions have been outside Germany (and Austria where it has been firmly implanted virtually from its inception and where it was the market leader until overhauled by ITAS). TUI's investments reflect a clear desire for control over the downstream product through investment in accommodation and in inbound agencies/operators in markets where it is a major incoming force.

In the last few years TUI has also expanded into neighbouring outbound markets, with strategic rather than controlling investments in Arke in the Netherlands and Chorus Tours in France, which was formed through the merger of existing TUI interests in France and other groups.

In 1990/91 non-German interests accounted for 29.1 per cent of total turnover. Of this, 36.5 per cent was from tour operating in Austria, Spain, France and the Netherlands. 38.8 per cent was from hotel operations and 24.7 per cent from its inbound agencies in destination countries. This is exclusive of some sales of the TUI Germany product outside its own borders.

TUI's links to airlines are only indirect through the companies with which it has connections either because they are a shareholder in one of its shareholders or through its own cross-shareholdings with the Hapag Lloyd group.

Ownership: a model of complexity

Weaving through the mass of cross-shareholdings in the German travel industry to reach the core of control over TUI is a complex task — as il is with other major players in the German tour operating business. What emerges, however, is a marked upstream presence of the rest of the travel industry. In particular travel agencies, as well as links to *major* retailers/mail *order* groups, German banks and indirectly with airlines.

TUI's current ownership structure is a reflection of more than two decades of mergers and takeovers going back to the early 1950s, but also of a restructuring imposed by the German anti-trust authorities (Kartellamt) in 1978. This became necessary when the Neckermann mail order and tour operating (NUR) business was taken over by Karstadt, another retailer. At that point Karstadt, which had been the original partner of retail/mail order group Quelle/Schickedanz in setting up Touristik Union International (TUI), had to divest itself of its holding in TUI.

The single largest current shareholder in Touristik Union International GmbH & Co KG, which is the group for the German companies in TUI other than some specialist operators. is HS Touristic Beteiligungsgesellschaft mbH. This holding company was set up at the time of the 1978 restructuring between Quelle/Schickedanz as a joint venture with another major retailer, Horten. At the time of the original reorganisation HS had a 20 per cent stake. This has since been increased to 25 per cent.

The ownership structure of TU Holding KG is slightly different and in this HS and the three main travel agency shareholders are more preponderant.

Horten's ultimate shareholders include Westdeutsche Landesbank and Kaufhof. These two banks also have significant minority interests in Germany's number two tour operator, NUR, through stakes in the other major retailing chain, Karstadt. Westdeutsche Landesbank, a minority shareholder in the number three operator LTU, has a major stake in Horten as well. (Another Horten shareholder 1s Kaufhof, the parent company of ITS, which in turn has stakes in Hapag Lloyd — a company which owns a major travel agency and a major charter airline.)

Three leading German travel agencies also have crucial stakes in TUI. These are Amtliches Bayrisches Reisebüro GmbH (ABR), Deutsches Reisebüro GmbH (which is linked through minority cross-shareholdings) and Hapag Lloyd Reisebüro GmbH (which is also a shareholder in DER and ABR). Each holds 11.59 per cent. All three were not only associated with Touropa but were also the founders in 1967 (with Airtour Flugreisen) of Airtour International, which was bought by TUI in 1970.

Through these three travel agencies, TUI has connections which stretch into most of German banking, travel and government. The German government is ultimately a stakeholder in ABR via the German railways and in DER via the railways and Lufthansa. Deutsche Bank comes back into the picture through a minority stake in Hapag Lloyd AG, the parent of Hapag Lloyd Reisebüro GmbH. (TUI itself is also a significant minority shareholder — 10 per cent — in Hapag Lloyd AG.) Deutsche Bank is also a major force on the supervisory board of Lufthansa, where it sits, among others, alongside a representative of the state of Bavaria, the main shareholder in ABR, and of the Dresdner Bank.

The presence among the TUI shareholders of the Hamburger Abendblatt/Die Welt-Reisebüro GmbH (10.001 per cent), the travel agencies founded by two major newspapers in the Axel Springer group, goes back to the takeover by TUI of Hummel, of which they had been the prime movers. Many of the remaining minority shareholders are also travel agents and got their stakes in TUI in a similar fashion.

The result is that 62.4 per cent of TUI is directly in the hands of travel agents — not counting the upstream connections with Quelle's own travel agency chain (one of Germany's top ten) through HS or more oblique connections through some of the other ultimate stakeholders.

TUI's tentacles

Apart from its 10 per cent strategic stake in Hapag Lloyd AG, the parent of the second largest German travel agency company, TUI owns two outbound travel agencies: Dr Degener in Austria and Ultramar Express in Spain. Both do incoming and outbound business and have tour operator subsidiaries (Terra Reisen and Ambassador).

TUI does not own an airline, but it is tied through cross-shareholdings to Hapag Lloyd and to Lufthansa (and therefore to Condor) through the airline's stakes in Hapag Lloyd and DER. Touropa Austria is a joint venture with Austrian Airlines.

TUI's five club and hotel chains — Robinson Club, Iberotel, Dorfhotels + Bauerndörfer, Grecotel and Riu — together own 91 hotels. TUI's involvement in the club market is strong. There are 22 Robinson Clubs for sun-and-sand destinations and five Dorfhotels + Bauerndörfer in rural locations in Austria.

German unification clearly offers potential to grow further in Germany through the sudden expansion in the market. TUI is strong in the accommodation-only market where most of the demand in eastern Germany has initially originated.

Nevertheless, TUI is still looking for investment targets in other European markets and is expected to continue its vertical integration into hotels and clubs.

It also has room for growth in long haul markets. Long haul passengers account for only 5.5 per cent of the total at present. This makes it only number two on the German long haul market at present behind DERTOUR in absolute numbers and, pro rata to its total turnover, long haul is less important for TUI and for LTU.

There is a constraint, however, as the travel agencies with strategic shareholdings in TUI and DER appear to have coordinated some segmentation which keeps TUI out of some long haul markets or market segments in order not to collide with DERTOUR.

Group financial performance

TUI is not required to publish any financial figures and did not do so in any detail until 1988/89. Even now it does not publish consolidated group results in the conventional sense of the word It limits itself to issuing a pre-tax profit figure for Its German operation and a turnover figure for the group which is the arithmetical sum of the sales of its component parts. No information is given on intra-group sales and how tky are accounted fix.

In calculating contributions of subsidiaries and associates (where the stake exceeds 30 per cent) turnover figures are taken on a pro rata basis. Obviously, in the case of companies in which TUI has a 30-50 per cent stake, this swells total turnover compared with companies which consolidate associates on the basis of the stake in equity (though they generally do so starting with companies in which they have a 20 per cent stake). On the other hand, it understates compared with companies which fully consolidate the results of subsidiaries in which they have a 50 per cent stake or more. In practice, the effect is probably only to overstate consolidated group turnover by perhaps DM200 mn compared with alternative accounting practices.

TUI Group turnover in 1990/91 was DM5,302.3 mn, an increase of 8.1 per cent over the previous year. Turnover of the German companies, excluding four specialist operators (Wolters, Take Off, Seetours and Air Conti) was DM3,486.7 mn, up 9.4 per cent. The pre-tax profit (ie excluding the four specialist operators and non-German interests) was DM25 mn in 1990/91. The previous year's figure was DM20 mn.

Table 9
TUI croup sales, 1988/89-1990/91[a]
(DM mn)

	1988/89	1989/90	1990/91
Group	3,446.4	4,907.0	5,302.3
TUI GmbH & Co KG	3,134.6	3,187.0	3,486.7

[a] Year ending October 31.
Source: Company data.

These results were achieved despite some substantial blows to key destinations as 'a result of the Gulf crisis and the civil war in Yugoslavia. Yugoslavia plummeted from eighth to 28th in the TUI popularity polls and bookings to all North African destinations and the eastern Mediterranean fell, in most cases sharply. Greece, Turkey and Tunisia are all major destinations for TUI, where it has hotel and inbound agency investments.

Tour operating

An additional DM273.5 mn in sales came from the four specialist operators: Wolters Reisen, a Scandinavia specialist, held through a 100 per cent stake owned by Dr Degener Reisen in Austria; Take Off — a late booking specialist set up in 1989/90 and which took off rather slowly; Seetours, for cruises; and Air Conti, a Munich based subsidiary.

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ble 10
UI Group financial performance, 1990/91
(DM mn)

	Turnover 1990/91	% change on previous year
TUI KG (100%)	3,486.7	9.4
Wolters Reisen (100%)	75.1	28.6
Take Off (100%)	19.7	34.9
Seetours (75%)	100.9	5.5
Air Conti (56%)	77.8	-8.3
Total	3,760.2	9.3

Source: Company data.

Non-German operators brought in DM562.2 mn, hotels DM599.1 mn and incoming agencies DM380.8 mn.

Destination investments

1990/91 results were clearly affected by the Gulf crisis and the civil war in Yugoslavia. This is reflected in the results of the hotd groups and incoming agencies and in destination choices. The sales of the incoming agencies in Greece (Airtour Greece), Morocco (Holidays Services) and Turkey (Tantur) were down, but none of these is a significant contributor to overall performance. The agencies in Spain and Kenya improved their performance.

Iberotel, which despite its name has hotels in Tunisia and Turkey as well as Spain, lost ground; while Riu. which is only in Spain, increased turnover significantly. Considerable capacity was added in 1990/91. This boosted some of the results and dampened others as some of it was in crisis affected locations. Iberotel's capital was increased in 1991 as a prelude to further expansion. This is likely to include further investment outside Spain

Table 11
TUI subsidiaries' financial performance, 1990/91
(DM mn)

	Turnover 1990/91	% change on previous year
Robinson Club (100%)[a]	220.0	29.4
Iberotel (100%)[b]	240.0	4.6
Dorfhotels + Bauerndörfer (100%)[c]	13.6	193
Grecotel (50%)	27.5	-17.9
Riu (49%)	98.0	35.1

[a] Three new clubs opened in 1990/91 (total: 22). [b] Same number of hotels — 35 — but 800 fewer beds in 1990/91. [c] Five instead of four facilities.
Source: Company data.

Hotel investments

TUI clearly now sees accommodation as part of its core business and this is one of the areas where it has expanded fastest in recent years. Iberotel and Riu together are Spain's second largest hotel group (behind Sol-Meliá). At end 1991 TUI had 47,100 beds of its own, of which some 25,000 were in Spain under the Iberotel and Riu banners. A further 2,500 were in Tunisia and Turkey — also under the Iberotel umbrella. The remainder were in Greece (5,000), in rural locations in Austria (2,400) (either in one of four TUI villages or in the single village hotel), or at the chain of Robinson Clubs (12,500).

The club format is becoming essential to the portfolio of any major catalogue travel operator in continental Europe and TUI is ahead of the German field with 22 clubs and 12,500 club beds (including club hotels and lodges) in both mountain and beach locations. TUI is expected to expand particularly rapidly in this area in future. Not all the properties are owned, however, though some are under long-term contract. Both Iberotel and Robinson Club market themselves as stand alone entities. Robinson Club catalogues are featured among others by Kuoni and Hotelplan in Switzerland and Alitur in Italy.

Destinations

Spain is the leading destination for TUI in Germany, followed by Germany, which moved well ahead Of Italy's number three position in 1990/91 with the impact of German unification.

Then were 180,000 bookings from eastern Germany out of a total of 3,006,500 holidaymakers on TUI KG holidays In 1990/91. This was 71.1 per cent of the recorded increase of 253,000. 92,500 of the bookings from eastern Germany were for holidays within Germany. (Austria, Italy and Hungary were the next most favoured.) Two thirds of these bookings were for train, motoring and self-catering holidays.

Table 12
TUI's[a] leading destinations, 1990/91

	Number of holidaymakers ('000)	% change on previous year
Spain	1,145.4	12.1
Germany	339.5	31.0
Italy	246.0	172
Greece	2083	-2.2
Austria	195.6	27.6
Turkey	80.5	-18.0
Tunisia	75.6	-35.9
France	736	16.5
Portugal	62.4	28.9
Benelux	44.8	32.9
North America	40.7	62.2
Other long haul	125.4	13.9
Other	368.7	-7.7
Total	**3,006.5**	93

[a] Clients of TUI KG only.
Source: Company data.

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Flight packages predominated in TUI KG sales but did considerably less well than most other types of holiday. The number increased only 1.6 per cent to 1,844,900 (61.4 per cent of the total). There was a 0.2 per cent decrease in the number of short and medium haul flight packages and a 23.9 per cent increase in long haul to 165,100. Rail trips were up 22.2 per cent to 262,700 (8.7 per cent of the total). Special TUI holiday trains (though actually now shared with other operators) are a special feature of TUI's product range, though one which other operators say is not profitable. Motoring holidays were up 24.9 per cent to 885,900 (29.4 per cent of the total). Within this there was a 14.8 per cent increase in the number of self-catering holidaymakers (522,200). Coach holidays are a smail(0.4 per cent) and declining part of the total. accounting for just 13,000 holidaymakers — down 6.5 per cent on the previous year.

Branding, marketing and distribution

Until the late 1980s TUI's product line was based on the inherited brands: Touropa (for the Mediterranean mass market), Scharnow (8 rentals specialist). TransEuropa (plane and bus packages), Hummel (car and train packages). Airtours, Dr Tigges (culture/study trips) and some new additions. These included Twen Tours (for teens and 20s). Hit (for low cost tailor made holidays based on modules) and Robinson Club. Robinson Club, which began in 1971, followed the successful formula developed by Club Méditerranée.

It was a holidays-for-all philosophy which aimed to offer something for every age range and pocket, while stopping short of packages cut to the bone along the lines of UK operators. It was an approach that had grown in a somewhat uncoordinated fashion and was due for renewal. When -l-U turnover dipped by 1.6 per cent in 1988/89 to DM3,135 bn and profits dropped 60 per cent to DM2.6 bn, management consultants were called in.

The result. in late 1990, was a radical shift in' TUI's marketing strategy away from a family of brands to destination marketing backed up by specialist brochures under the TUI name for specific markets (eg study trips). This change was greeted in many quarters with considerable scepticism because it meant the disappearance of brand names which for many were synonymous in Germany with the growth of packaged tourism TUI appears successfully to have made the transition. however, and others have followed. Only. four areas maintain a distinct identity. The Robinson Clubs. the "Twen Tours" products for the younger market, Airtours for air packages with scheduled airlines (seven summer catalogues and 211,000 passengers in 1990/91), Seetours for cruises and the specialist scat only operator, Hhf.

TUI sells its product through agencies to which it has granted a TUI licence. There were 3,834 of these in Germany at end October 1991 and 206 in Switzerland, the Netherlands, Luxembourg, Austria and Prance (Alsace).

In 1990 TUI introduced its first franchise for large agencies (turnover of DM3 mn or more). These qualify for the designation TUI-Urlaub-Center. There were SO at end 1991 and a further 300-400 are planned over the next five years. In return for paying TUI 0.5 per cent of turnover, these agencies receive training and management assistance.

In 1991 TUI introduced the concept of TUI Profi-Partners (Profi being short far professional) for smaller agencies. For agencies with DM1 mn TUI turnover (or DM2 mn package turnover, or DM5 mn turnover overall) TUI offers free shopfront material and fittings, preference for catalogue and sales brochure delivery, marketing assistance and priority on training courses. In exchange, TUI requires the main window to be devoted to TUI promotions and TUI brochures to be prominently displayed inside the shop.

TUI requires agencies with a TUI licence not to sell either ITS or NUR holidays — an exclusive dealing arrangement which has the blessing of the cartel authorities and more recently the courts (see section on ITS for more information), and which has so far not been challenged by the agencies.

Like a number of the large operators In northern Europe, TUI promotes customer loyalty through an in-house credit card (linked to Visa). which enables it to offer payment terms. Special services linked to the card are seat booking (for a fee of DM20) and a house guarding service (DM65 for each day's holiday).

TUI outside Germany

TUI has nine tour *operating* subsidiaries or associates *outside* Germany, two in Austria, one in Spain, one in France and one in the Netherlands. They are to all intents and purposes TUI subsidiaries even if anti-trust considerations or concern not to create the impression of a German takeover appear to be keeping TUI from majority stakes in some cases.

TUI has been established in Austria for several decades. The subsidiaries specialising in Austrian business, Terra and Touropa, are held through TUI's Austrian travel agency subsidiary, Dr Degener Reisen. The others are more recent acquisitions. The stakes in Mce of the Netherlands and in chorus Tours of France were investments specifically in becoming an outbound operator in other markets. The Spanish tour operator Is the offshoot of the purchase of a travel agency (Ultramar Express) in order to have an incoming outlet, but is growing as Spain's outbound market grows.

The TUI connection is not promoted by any of these operators, which retain independent identities in their local markets. They contributed IO.6 per cent of group turnover in 1990/91, though overall their turnover fell by 1.1 per cent. Arke and Touropa managed to hold their heads above water, but the results of Ambassador, Terra and the already ailing Chorus Tours were affected by the Gulf and Yugoslav crises. (These calculations are based on projections in Deutschemarks to end October 1991 and do not necessarily correspond to final data from the companies themselves.)

Table 13
The contribution of non-German tour operating interests to TUI Group turnover, 1990/91 (DM mn)

	Level of turnover included in 1990/91 group results	% change on previous year
Arke Reizen (40%). Netherlands	269.6	0.7
Touropa Austria (50%), Austria	1183	1.9
Chorus Group (40%)*, France	110.3	-3.6
Terra Reisen International (100%), Austria	232	-10.4
Ambassador Tours (77%). Spain	40.8	-79
Total	562.2	-1.1

* At end 1991, TUI held 45.9% of Chorus.
Source: TUI.

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TUI in the Netherlands

TUI has a 40 per cent stake in Arke — the Netherlands' second largest tour operator (behind Holland International), which it purchased in 1989, Of all the tour operating subsidiaries Arke is the biggest single contributor to the balance sheet, accounting for 32.6 per cent of all tour operating activity not consolidated in the TUI KG results. Arke's business travel interests (13-15 per cent of the total Dutch business travel market) are an exception in TUI's otherwise holiday based profile. As Arke is an affiliate of TUI, not a subsidiary and is the number 17 in Europe. it is dealt with in a separate section.

TUI in Austria

TUI is firmly entrenched in the Austrian market. Touropa, over which TUI has joint control with Austrian Airlines, the leading Austrian tour operator selling under the Touropa and TransEuropa names, but has been toppled from its perch by ITAS. Touropa is dealt with as an independent company in this study as it is consolidated on an equity basis rather than on a turnover basis in the results of both Dr Degener Reisen and Austrian Airlines.

In addition, TUI controls Tan Reisen International, the Austrian tour operator linked to the Dr Degener Reisen travel agencies in Austria. Terra's results in 1990/91 were affected by the loss Of self-catering business to Yugoslavia. It is a value for money specialist in Mediterranean destinations with a particular emphasis on rentals.

TUI in France

TUI took a 40 per cent stake in SFTA SA, a French tour operator selling under the Chorus brand, in 1989. This was increased co 45.9 per cent in late 1991. Chorus Tours (formerly Chorus) is the result of a merger of three groups: Touropa, Airtours and Cruisair. TUI's partners in Chorus Tours are Havas, Selectour and the Heliopoulos. As Chorus Tours is an affiliate of TUI it is dealt with separately in this study.

Chorus has so far not been a successful investment for TUI, losing an amount equal to 2.8 per cent of turnover in 1988/89; 0.7 per cent of turnover in 1989/90; and in 1990/91 turnover fell by 3.6 pet cent as a result of the downturn in business in Tunisia and Morocco, and the company again made losses.

in France, SFTA/Chorus is in a joint venture with Air France's tour operating subsidiary, Sotair, for development of the Atoll CRS. Selectour, one of TUI's partners in Chorus, is also tied into Air France through an investment subsidiary (In which other shareholders are Avis and the upmarket rental accommodation specialist, Pierre et Vacances.)

TUI in Spain

TUI's travel agency investment in Spain is the largest tingle non-German contributor to group results.

DM283.5 mn was allocated to the group from TUI's 77 per cent stake in 1990/91, an increase of 12.5 per cent. (ITS subsidiary Holland International (HI) has a further 10 per cent in Ultramar in what appears to be an anomalous tie-up which pre-dates the ITS takeover of HI. The stake of Arke in Royaltur alongside NUR was also anomalous, but arose for similar reasons.) The Arke stake in Royaltur has now been passed to Arke's controlling shareholders.

Together with the sales of Ambassador Tours, which is a tour operating subsidiary of Ultramar Express, TUI is about number six in the Spanish travel market. TUI also has a 30 per cent stake in a small incoming agency in Ibiza, Viajes Isla Blanca (turnover in 1990/91 DM4 mn).

As well as handling incoming business for TUI, Ultramar Express is a fully fledged travel agency, selling outbound travel as well, both from the programmes of its own tour operating subsidiary (Ambassador) brochures and from those of other Spanish operators. Starting in late 1991 Ultramar Express was opening ten new offices which will bring the number of outlets to 77.

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Translation of letter from Oeutsche Bahn dated 8 Juni 1994

Mr. David Collier
Vice President

German Rail Distribution through SABRE, your fax of today

Dear Mr. Collier,

we regret that you did not attend the meeting between SABRE, DB, and Start on 28 April, 1994. During this meeting START and DB stated their reason and explained the background for the negative decision of the use of the Start board *in* SABRE ' PC,s.

Let me summarize those results for you from our point of view:

START as competitor of SABRE within the German Market would have never discussed this solution without the interference of DB.Start is of the opinion that the availability of DB through SABRE terminals would result in a considerable loss of advantage for Start within the German market. Start has attended those discussions and meetings only by request and invitation of DB. The negative decision has been explained and clearly verbalized by Mr. R tter, Managing Director of Start. In addition, Mr. R tter stated during this last meeting clearly, that the use of the Start-board would grant SABRE full Start- functionality on SABRE-PC,s, which would mean that Amadeus and other users, which can be booked through Start could have access to those terminals as well. To summarize this statement in simple words: SABRE would install Start-Terminals with the SABRE logo in front.

For SABRE and all other Computer Reservation Systems, the so called Stan-board solution would have been the only short term solution for full usage of the DE-functionality. DB has invited Start to attend all technical discussions in order to discuss this solution right from the beginning with the liable partners. Afterwards the commercial terms should have been discussed.

DB seeked and still tries to seek moderately priced alternatives to the distribution via Start. Mr. Airaut stated in the meeting on 28 of April that SABRE would not offer any economical advantages for DB.

Additionaly, the evaluation of a market study has shown that the expansion of the DB distribution via SABRE would not result in any additional market shares for DB in Germany.

Furthermore DB has explained in the meeting on 28 April that DB is not willing under this prerequisites to enter a conflict with the other Start parent companies Deutsche Lufthansa (LH) und Touristik Union International (TUI). Those both companies are definitely not interested to make the START-features available via SABRE. On the contrary Deutsche Lufthansa is via Amadeus in Germany with the marketing organization Start Amadeus direct competitor of SABRE.

Also Deutsche Lufthansa und DB have a very close working relationship in many areas, this relationship would be influenced in a very negative way by an uncoordinated action of Start.

This means that from DB,s point of view there are a lot of disadvantages and not one advantage. We did not proceed with a technical solution which would have not been a perfect solution for all parties involved. Our decision has been based on commercial aspects as well.

From our point of view not a single argument has been changed since our last meeting and therefore .Start and our company are holding on to our decision which had been communicated to Mr. von Heintschel, Mr. Mapp, Mr. Trounce and Mr. Walker

With best regards,

Oeutsche Bahn DB

Geschäftsbereich Fernverkehr

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Deutsche Bahn Distribution in SABRE; Ihr Fax von heute

8. Juni 1994

Sehr geehrter Herr Collier,

bedauerlicherweise haben Sii nicht persönlich am gemeinsamen Gespräch zwischen SABRE, DB und START am 28. April d.J. teilgenommen, in dem START und DB ihre negative Entscheidung bezüglich des START-Bord-Einsatzes in SABRE-PCs mitgeteilt und begründet haben.

Lassen Sie mich deshalb auch diese Ergebnisse für Se aus unserer Sicht noch einmal zusammenfassen.

START als Wettbewerber von SABRE im deutschen Markt hätte mit SABRE über diese Lösung von sich aus niemals verhandelt, weil mit der Verfügbarkeit von DB auf SABRE-Terminals für START ein entscheidender Vorsprung vor deln Mitbewerber entfallen würde. START hat die technischen Gespräche nur auf Wunsch und Einladung von DB geführt. Die Absage hat Herr Rütter als START-Geschäftsführer klar formuliert und begründet. Darüber hinaus hat Herr Rütter bei diesem Treffen auch ausgeführt, daß mit dem Einsatz des START-Bords volle START-Funktionalität auf SABRE-PCs käme, d.h. auch AMADEUS und andere Leistungsträger, de über START buchbar sind, könnten den Zugriff dieser Terminals freischalten. Um es in einfachen Worten zu sagen: SABRE würde START-Terminals installieren, auf denen au&n SABRE stünde.

Für SABRE und alle anderen Vertriebssysteme war die START-Bord-Lösung aber die einzig kurzfristig technisch zu realisierende Möglichkeit, um über DB-Funktionalität zu verfügen. DB hat START zu den technischen Gesprächen hinzugezogen, damit dies verbindlich besprochen werden konnte. Anschließend sollten die kommerziellen Bedingungen verhandelt werden.

DB suchte und sucht weiterhin preiswertere Alternativen zum Vertrieb über START zu erreichen. Herr Airaut von SABRE hat noch am 28. April d.J. darauf verwiesen, daß SABRE bei dieser Lösung keine wirtschaftlichen Vorteile für DB anbieten könne.

Eine Untersuchung des Marktes hat zudem ergeben, daß mit der Ausweitung des Vertriebs über SABRE keine zusätzlichen Marktpotentiale in Deutschland erschlossen werden können.

DB hat dann beim Treffen am 28. April d.J. weiter ausgeführt, daß DB unter diesen Voraussetzungen nicht bereit ist, in einen Konflikt mit den beiden anderen START-Gesellschaftern, Deutsche Lufthansa (LH) und Touristik Union International (TUI), einzutreten, die ktin Interesse daran haben, START-Leistung über SABRE verfüg bar zu machen. Ganz im Gegenteil, die Deutsche Lufthansa ist über AMADEUS in Deutschland mit der Vermarktungsorganisation START AMADEUS direkter Konkurrent von SABRE.

Darüber hinaus arbeiten Deutsche Lufthansa und DB auf vielfältigen Gebieten zusammen, die von einem nicht abgestimmten Vorgehen bei START sicher stark beeinträchtigt würden.

So steht einer ganzen Reihe von Nachteilen kein einziger Vorteil für DB gegenüber. Da wir unter kommerziellen Gesichtspunkten entscheiden, haben wir damit eine technische Lösung, die für alle Beteiligten nur eine Notlösung gewesen wäre, nicht weiter verfolgt.

Aus unserer Sicht hat sich seit diesem Termin nicht ein einziges Argument verändert, daher stehen wir gemeinsam mit START hinter den Entscheidungen, 'die Ihren Herren von Heintschel, Airaut, Mapp, trounce und Walker mitgeteilt, ausführlich erläutert und begründet wurden.

Mit freundlichen Grüßen

Balzer

i.V. Balzer

cc Tasso von Heintschel

Galileo International
9700 West Higgins Road
Rosemont, Illinois 60018
(708) 518-4000

GALILEO
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Booking Fee Comparisons

(A Competitive Review of Key Participant Services)

All Prices effective April 1, 1996 for transactions generated from Europe

	Galileo	*SABRE*	Amadeus	Worldspan
Full Participant	2.34	2.52	2.68	2.68
Interactive Display	.23	.27	.27	.28
Interactive Sell	.23	.27	.40	.28
Ticket Fee	.00	.00	.62	.00
Credit Card Auth.	.00	.00	.12	.00
Base Fee % Savings with Galileo		7.2%	12.7%	12.7%

(All Fees expressed in ECUs for ease of comparison)

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing motion and response by fax on United and Lufthansa, and by first-class mail on all persons named on the service list attached to their joint reply.

[redacted]

CARL [redacted]

April 23, 1996